

"(A) a determination as defined in section
1313(a),
or"

(c) REPEAL OF SPECIAL AUDIT PROVISIONS FOR
SUB-
CHAPTER S ITEMS.—

(1) GENERAL RULE.—Subchapter D of chapter 63 (relating
26 use 6241 *et*
to tax treatment of subchapter S items) is hereby repealed.

(2) CONSISTENT TREATMENT REQUIRED.—Section 6037
(relating to return of S corporation) is amended by
adding
at the end the following new subsection:

"(c) SHAREHOLDER'S RETURN MUST BE CONSISTENT WITH COR-
PORATE RETURN OR SECRETARY NOTIFIED OF INCONSISTENCY.—

"(1) IN GENERAL.—A shareholder of an S
corporation shall
on such shareholder's return treat a
subchapter S item in
a manner which is consistent with the treatment
of such item
on the corporate return.

"(2) NOTIFICATION OF INCONSISTENT TREATMENT.—

"(A) IN GENERAL.—In the case of any
subchapter S
item, if—

"(i) (D the corporation has filed a return
but the
shareholder's treatment on his return is
(or may be)
inconsistent with the treatment of the
item on the
corporate return, or

"(II) the corporation has not filed a return, and

"(ii) the shareholder files with the Secretary a
statement identifying the inconsistency.
paragraph (1) shall not apply to such item.

"(B) SHAREHOLDER RECEIVING INCORRECT
INFORMA-
TION.—A shareholder shall be treated as
having complied
with clause (ii) of subparagraph (A) with
respect to a sub-
chapter S item if the shareholder—

"(i) demonstrates to the satisfaction of
the Sec-
retary that the treatment of the
subchapter S item
on the shareholder's return is consistent
with the treat-
ment of the item on the schedule furnished
to the
shareholder by the corporation, and

"(ii) elects to have this paragraph apply with
respect to that item.

"(3) EFFECT OF FAILURE TO NOTIFY.—In any case—

"(A) described in subparagraph (A)(i)(I) of
paragraph
(2), and

"(B) in which the shareholder does not
comply with
subparagraph (A)(ii) of paragraph (2).

any adjustment required to make the treatment
of the items

by such shareholder consistent with the treatment of the items on the corporate return shall be treated as arising out of mathematical or clerical errors and assessed according to section 6213(b)(1). Paragraph (2) of section 6213(b) shall not apply to any assessment referred to in the preceding sentence.

"(4) SUBCHAPTER S ITEM.—For purposes of this subsection.

the term "subchapter S item" means any item of an S corporation to the extent that regulations prescribed by the Secretary provide that, for purposes of this subtitle, such item is more appropriately determined at the corporation level than at the shareholder level.